

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Senate Energy Committee Briefing

FROM:

 DDI/Congressional Support
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NO.

DATE

8 February 1983

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This is the non-CIA line-up for the February 18th Senate Energy Committee hearing:

Department of Energy
 George Bradley, Dep. Asst.
 Secy for Int'l Affairs
 with John Broadman and
 Dennis O'Brien

State
 Allen Wendt, Dept. Asst.
 Secy for Int'l Economic
 Policy
 with James Placke

Treasury
 Mark Leland, Asst. Secy
 for International Affairs

MEMORANDUM FOR: → you

Re: Senate Energy Hearing on
Feb 18th

The attached article may be
helpful to Mr. Rowan in
preparation for the upcoming hearing.

Date

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Energy

Fiscal 1984 Budget:

'Lopsided' Energy Budget Runs Into Hostile Reception

Since taking office in November, Energy Secretary Donald P. Hodel has repeatedly stressed the need for a "balanced" energy program. But his 1984 budget proposal, like the budgets of his predecessor, James B. Edwards, was noticeably lopsided.

Funds for energy conservation, renewable energy and fossil fuel programs were cut sharply, while those for nuclear energy were increased. Spending for nuclear weapons programs was raised to 57 percent of the Energy Department's total \$11.9 billion budget. (*Budget figures, box, this page*)

Hodel attempted to portray the proposal as a conciliatory gesture to Congress. During his confirmation hearings, senators from both parties had complained that the administration was unwisely attempting to put all its eggs into a nuclear basket; this budget, Hodel argued, was an attempt to accommodate congressional concerns. Energy conservation funds were three and one-half times larger than last year's request, and renewable energy and fossil fuel funds were almost 30 percent above last year's requests.

But Hodel's arguments were ridiculed on Capitol Hill. Congress had tossed last year's requests out the window as soon as they came in the door, and the budgets finally adopted for fiscal 1982 and 1983 bore little resemblance to the administration's proposals for Draconian cuts in non-nuclear programs. (*Fiscal 1983 budget proposal, 1982 Weekly Report p. 261*)

Compared to funds actually appropriated by Congress last year, the funding proposed by Hodel for conservation, renewable energy and fossil fuels programs represented cuts of 75 percent, 60 percent and 56 percent, respectively.

Those cuts alone prompted enough criticism to presage defeat of the latest energy budget in Congress.

—By Alan Murray

But the measure provoked even more congressional ire by recommending a slowdown in the rate at which the nation's Strategic Petroleum Reserve is being filled, to well below the rate mandated by Congress.

Bipartisan Attack

Hodel went before the Senate Energy Committee Feb. 1 to defend the budget proposals, and came under attack from Republicans and Democrats alike.

"We are back in the basic position

we were in last year," said Wendell H. Ford, D-Ky. "What you asked for and what we will approve are two different things."

House members also noted that the proposal was little different from the one rejected last year.

"Almost all Democrats and many Republicans believe that the energy budget is still not a serious budget," said a staff member for the Senate Budget Committee.

The budget also challenged political reality by assuming the Energy Department would be folded into the Commerce Department. Funds for departmental administration were decreased accordingly.

The administration's plans for dismantling the Department of Energy (DOE) were rejected last year by key members of its own party, and there is little reason to believe such a

Energy Department Budget

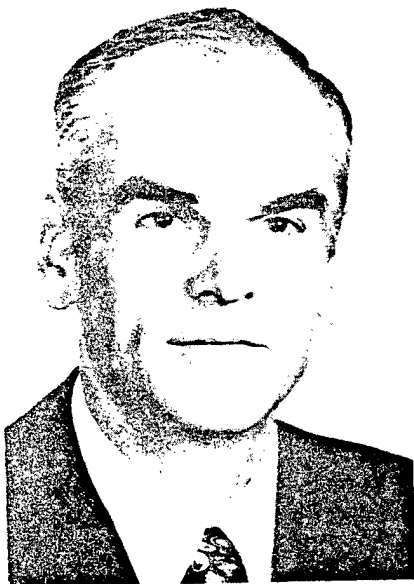
Following are President Reagan's fiscal 1983 and fiscal 1984 energy budget requests, and the amounts actually appropriated by Congress for energy programs in fiscal 1983 (*budget authority, in millions of dollars*):

	FY 1983 budget request	FY 1983 appro- priation	FY 1984 budget request
Energy Research and Development			
Conservation	\$ 22	\$ 410	\$ 101
Fossil Energy	109	311	138
Solar and Other Renewable Fuels	79	253	102
Magnetic Fusion	444	447	467
Nuclear Fission	833	816	848
Environment, Safety, Health	208	227	211
Supporting Research, Technical Analysis	328	328	408
Policy and Management	3	6	4
Subtotal, Research & Development	\$ 2,026	\$ 2,798	\$ 2,279
Direct Energy Production	\$ 944	\$ 830	\$ 871
Nuclear Waste Disposal Activities	185	217	307
Other Energy Functions	116	175	108
Strategic Petroleum Reserve*	2,316	2,316	742
General Science	562	554	645
Atomic Energy Defense Activities	5,936	5,704	6,778
Support Activities	107	241	172
TOTAL, Department of Energy	\$12,192	\$12,835	\$11,902

* Includes off-budget purchases of oil.

Source: Department of Energy

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Energy Secretary Donald P. Hodel (left) attempted to portray the administration's energy budget as a conciliatory gesture to Congress, but his arguments were ridiculed on Capitol Hill. Said Sen. Wendell H. Ford, D-Ky. (right): "What you asked for and what we will approve are two different things."



plan would be any more acceptable this year. (1982 Weekly Report p. 3151)

Hodel said the administration had not yet decided whether to resubmit a plan for dismantling DOE.

The energy budget reflects President Reagan's free-market ideology. The administration believes that market forces should be allowed to encourage conservation and most energy development, while federal aid should be limited to long-term, high-risk projects that cannot be expected to attract private investment.

The budget gave no indication as to whether the administration will submit a proposal for deregulating natural gas this year. Hodel said the gas issue is being studied, and a legislative proposal might be ready when Congress returns from its Lincoln's Birthday recess Feb. 14.

If a proposal is introduced, it is certain to be the center of attention for Congress in energy policy this year. (Weekly Report p. 204)

Major Proposals

Highlights of the fiscal 1984 energy budget included:

Research and Development

Research and development programs are the heart of the Energy Department budget — and the center of the budget controversy.

The administration proposed a total of \$2.279 billion for research and

development in fiscal 1984, down 19 percent from the fiscal 1983 level of \$2.798 billion. The cuts all came from conservation, fossil fuels, renewable energy and environmental research.

On the other hand, spending for nuclear programs rose. Magnetic fusion research went to \$467 million, from \$447 million in fiscal 1983, and nuclear fission went to \$848 million, from \$816 million.

Funds for supporting research and technical analysis increased to \$408 million, from \$328 million.

Strategic Petroleum Reserve

Energy preparedness legislation enacted by Congress last year (PL 97-229) requires the president to fill the Strategic Petroleum Reserve (SPR) at a rate of 300,000 barrels per day unless he certifies that to do so is not in the national interest. The minimum fill rate allowed is 220,000 barrels per day. (1982 Weekly Report p. 1904)

But the energy budget proposes adding only 145,000 barrels a day to the reserve in 1984, in order to save money. Hodel argued that because oil imports have decreased in the past year, the need for rapidly filling the reserve also has decreased. He also said that the possibility of an oil embargo is less likely now than it has been in the past.

Several senators vehemently expressed their disapproval of the administration plan.

"This committee, in a bipartisan way, has been strong on what rate the

reserve should be filled at," Bill Bradley, D-N.J., told Hodel. Energy Committee Chairman James A. McClure, R-Idaho, said the plan probably would be rejected by Congress.

McClure also noted that the current SPR fill rate is 216,000 barrels a day, and therefore violates the law. "It does not make much sense to expose yourself to a violation of the law for 4,000 barrels a day," he told Hodel.

Funds for purchasing oil for the SPR are not considered part of the budget, and therefore do not affect calculations of the budget deficit.

Defense Activities

The administration requested \$6.8 billion for DOE's atomic energy defense programs — \$1 billion more than the fiscal 1983 appropriation.

The major increases are to support the building of weapons and the production of weapons materials. The figure also includes funds for disposing of radioactive wastes from weapons production.

Low-Income Energy Aid

In fiscal 1983, DOE, at the insistence of Congress, provided \$260 million to states and localities for home weatherization and other energy conservation programs. This year, the department again proposed to eliminate the funds.

Hodel said the program had been merged into a larger program, administered by the Department of Health and Human Services, of grants to

states for energy assistance to the poor. However, that program was cut by \$600 million from last year's funding, to \$1.3 billion. (*Story*, p. 307)

With rising gas prices pushing up home heating bills, political pressure for maintaining these programs to assist the poor is certain to be strong in Congress.

Clinch River Breeder Reactor

The budget request for nuclear fission included \$270 million earmarked for the Clinch River Breeder Reactor. That project is rapidly losing support in Congress, and narrowly escaped the scrap heap last year. (*1982 Weekly Report* p. 3105)

Hodel said the budget figure was a "soft" one, likely to be cut by Congress if the administration is unable to propose alternative means of financing.

An industry committee is looking into ways to increase private participation in the Clinch River demonstration project, and must finish its work by early March. "In the absence of greater industry participation," Hodel said, "it would be virtually impossible for us to carry the case for Clinch River."

The Clinch River project is designed to demonstrate the feasibility of breeder reactors, which run on plutonium and produce, as a byproduct, more plutonium than they consume. Ever since it was authorized in 1970, it has been fought by environmentalists. In the past two years, they have been joined in their opposition by a growing number of fiscal conservatives who believe the reactor is not economically feasible and is draining too much money from the federal budget.

Nuclear Waste Disposal

The administration requested \$307 million for financing the development, construction and operation of a repository for high-level nuclear waste, as required by the nuclear waste bill (PL 97-425) enacted last year. (*1982 Weekly Report* p. 3103)

However, to cover the expense, the Energy Department plans to raise \$448 million in new fees from utilities that operate nuclear power plants. The excess funds will be retained for future needs.

DOE is proceeding rapidly with its plans for locating a nuclear waste repository. It is currently examining sites in Washington, Nevada, Texas and Utah. Three different potential sites for a repository must be recom-

mended to the president by Jan. 1, 1985.

General Science

The administration increased its funding request for basic science research to \$645 million, up 16 percent from \$554 million in fiscal 1983. The money would be used to take advantage of new high-energy physics and nuclear physics research laboratory facilities.

Direct Energy Production

Government programs to enrich uranium for commercial nuclear power plants and defense uses, to produce gas and oil at the naval petroleum reserves and to generate power in certain regions of the nation will cost an estimated \$3.1 billion in fiscal 1984, according to the budget. But the revenues generated by those programs

would more than cover the costs.

Uranium enrichment revenues, expected to total \$2.2 billion in 1984, are offset against DOE's direct production costs. But revenues from four power marketing administrations and from the naval reserves are deposited directly into the federal Treasury. Therefore, budget authority of \$871 million is needed to cover the department's direct production programs.

Synthetic Fuels

The U.S. Synthetic Fuels Corporation, which provides subsidies for developing synthetic fuels, plans to issue loan guarantees and price guarantees totaling \$7.2 billion in fiscal 1984, according to the budget.

Those guarantees will require \$67 million in spending authority; however, the funds are not included in the government's budget.

Falling Oil Revenues Seen

The breakdown of negotiations by the Organization of Petroleum Exporting Countries (OPEC) in Geneva last month portends a possible steep drop in oil prices.

That would be welcome news for U.S. consumers, but perhaps not to the Treasury Department. A drop in foreign oil prices would be accompanied by a similar decline in domestic oil prices, and the government has come to lean heavily on the domestic oil industry for tax revenues.

According to Treasury Department officials, the windfall profits tax on oil is expected to bring in \$7.2 billion in fiscal 1983 and \$6.4 billion in fiscal 1984. That is nearly two-thirds of the entire energy budget.

Those estimates, however, were calculated late last year, and assume that oil will stay near its current price of about \$32 per barrel. A sharp decline in oil prices would create an equally sharp decline in revenues and add to the nation's budget deficit.

Each \$2-a-barrel drop in oil prices causes a \$1 billion decline in net revenues, according to rough Treasury estimates.

So if oil prices fall to \$20 a barrel — the most optimistic of the current predictions — windfall profit tax revenues would be almost entirely eliminated.

Nevertheless, a permanent drop in oil prices could be welcome news even to the Treasury, in the long run. A drop in prices would provide a much-needed boost to U.S. industry, and a healthy industrial expansion would fill federal coffers far more quickly than the decline in windfall profit taxes would drain them.

The windfall profits tax was enacted in 1980 (PL 96-223) to capture for public use some of the benefits reaped by domestic oil companies as a result of a tenfold increase in oil prices. At that time, oil prices were expected to stay on a fast upward track, and the tax was expected to bring in \$227 billion by 1990. (*1980 Almanac* p. 473)

In fact, prices did not continue to increase at the rate predicted by Congress, and tax revenues, as a result, have not been nearly as high as expected. Nevertheless, the tax continues to be a major source of revenue; it has brought in roughly \$26 billion since its enactment.

Last November, the tax was declared unconstitutional by a federal court judge in Wyoming, but the Treasury Department has continued to collect the revenues pending the outcome of an appeal of the case to the Supreme Court. (*1982 Weekly Report* p. 2861)